

## Message Text

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ACTION EUR-12

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FM AMEMBASSY ROME

TO SECSTATE WASHDC 1832

TREASURY DEPARTMENT WASHDC

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PASS FRB

E.O. 11652 N/A

TAGS: EFIN, IT

SUBJECT: BANK CREDIT CEILINGS EXTENDED TO END JULY

REF: 77 ROME 5266

1. CEILINGS ON BANKS' LIRA CREDITS TO LARGE RESIDENT COMMERCIAL CUSTOMERS HAVE BEEN EXTENDED FOR FOUR MONTHS TO JULY 31, 1978. THE RENEWAL OF THE CREDIT CONTROL PROGRAM PROVIDES FOR AN INCREASE IN LOANS SUBJECT TO THE CEILINGS OF ONE PERCENT IN MAY-JUNE AND OF FOUR PERCENT IN JUNE-JULY WITH RESPECT TO THE BASE OF 48,547 BILLION LIRE (AVERAGE AMOUNT OF LOANS SUBJECT TO CEILINGS OUTSTANDING DURING MARCH-SEPTEMBER 1976). MONTHLY MAXIMUM PERCENTAGE INCREASES ARE SUPPOSED TO TAKE ACCOUNT OF SEASONAL FACTORS. THE PROGRAM IS UNCHANGED FROM THAT IN EFFECT SINCE APRIL 1, 1977, WHICH WAS IN THRU AN EXTENSION OF THE PROGRAM ADOPTED 1976 TO DEFEND THE LIRA (SEE REFTEL).

2. IN A SMIT-OFFICIAL STATEMENT CITED IN THE PRESS AND LIMITED OFFICIAL USE

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CONFIRMED BY THE EMBASSY, THE BANK OF ITALY STATED THAT THE CREDIT CONTROL PROGRAM WAS RENEWED UNALTERED AND FOR ONLY FOUR MONTHS BECAUSE: (A) UNCERTAINTIES REMAIN CONCERNING ECONOMIC PROGRAM FOR 1978; (B) LEGISLATIVE ACTIONS AFFECTING THE SIZE OF THE ENLARGED PUBLIC SECTOR DEFICIT FOR 1978 AND ITS FINANCING HAVE YET TO BE PASSED; AND (C) THE FINANCIAL IMPLICATIONS OF THE PROPOSED FINANCIAL

RESTRUCTURING OF SOME LARGE ENTERPRISES ARE NOT YET CLEAR. REGARDING THE LONGER-TERM PROSPECTS OF THE CREDIT-CONTROL PROGRAM, THE BANK SAID THAT IN THE SECOND HALF OF THE YEAR IT WOULD REORGANIZE IT TO REDUCE THE "DISTORTING" EFFECTS OF THE CEILINGS, "WHICH THE PERSISTENT INFLATIONARY CLIMATE CONTINUES TO MAKE NECESSARY."

3. COMMENT: THE BOI SEES THE CREDIT CEILINGS AS PRIMARILY ALTERING THE ALLOCATION OF CREDIT IN FAVOR OF THE PUBLIC SECTOR AND THUS INDIRECTLY HELPING TO LIMIT TOTAL CREDIT EXPANSION SINCE, IN ANY CASE, THE PUBLIC SECTOR DEFICIT WOULD BE FINANCED. THE BOI ALSO SEES THE CREDIT CEILINGS AS A SAFEGUARD AGAINST THE USE OF SHORT-TERM BANK CREDIT TO FINANCE SPECULATIVE STOCK BUILDING, WHICH WOULD BEAR ADVERSELY ON THE BALANCE OF PAYMENTS AND THE EXCHANGE RATE. SOMEWHAT IRONICALLY A FACTOR THAT WILL PROLONG THE CREDIT CONTROL PROGRAM IS THE BUILDUP OF TREASURY BILL HOLDINGS IN THE BANKS THAT THE CREDIT CEILINGS HAVE THEMSELVES INDUCED. THESE BILL HOLDINGS ARE A POTENTIAL SOURCE OF EXCESS BANK RESERVES SHOULD CREDIT DEMAND LEAD BANKS TO LIQUIDATE THEIR HOLDINGS, AND THE BOI WOULD FIND IT VERY DIFFICULT TO COUNTERACT THE EXPANSIONARY CONSEQUENCES OF SUCH A LIQUIDATION FOR THE MONETARY AGGREGATES AND DOMESTIC CREDIT. IT SEEMS, THEREFORE, THAT ONLY PRUDENT CHOICE OPEN TO THE BOI AT THE PRESENT TIME IS TO MAINTAIN THE CONTROLS IN PLACE. HOLMES LIMITED OFFICIAL USE

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## Message Attributes

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**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
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